

BACKGROUNDER 1-0384
EDIE APPLE/BRUSSELS

MARCH 17, 1976

ECONOMICS OF EUROPEAN UNITY

ANNCR:

THE DECISION ON MONDAY BY THE FRENCH TO LET THE FRANC FLOAT SEPARATELY FROM OTHER EUROPEAN CURRENCIES IS SEEN IN BRUSSELS AS A SET BACK FOR EUROPEAN UNITY. FROM BRUSSELS, EDIE APPLE HAS THIS BACKGROUND REPORT.

VOICE:

THE FRENCH DECISION TO LET THE FRANC FLOAT FREEDLY IN RELATION TO OTHER EUROPEAN CURRENCIES POINTS OUT THE PROBLEMS THE EUROPEAN COMMUNITY IS HAVING IN ACHIEVING UNIFICATION. AT ONE POINT THE COMMON MARKET COUNCIL HOPED TO REACH ECONOMIC AND MONETARY UNITY BY NINETEEN EIGHTY. BUT THAT WAS BEFORE THE ECONOMIC AND MONETARY UPSETS OF THE LAST FIVE YEARS. AND THE REPORT BY BELGIAN PREMIER LEO TINDEMANS WHICH IS SERVING AS THE BASIS FOR CURRENT DISCUSSION ON THE FUTURE OF EUROPE ADMITS THIS GOAL CANNOT BE ACHIEVED.

WHAT THE FRENCH PULLED OUT OF ON MONDAY WAS A NINETEEN SEVENTY-TWO AGREEMENT LIMITING FLUCTUATION BETWEEN EUROPEAN CURRENCIES. THIS MEANS THAT WHEN THE VALUE OF THE STRONGEST CURRENCY, THE WEST GERMAN MARK, GOES UP IN RELATION TO OUTSIDE CURRENCIES ALL THE OTHERS MUST FOLLOW.

BOTH BRITAIN AND ITALY DROPPED OUT BY EARLY NINETEEN SEVENTY-THREE. THEY FOUND THAT THEIR RELATIVELY WEAK ECONOMIC AND BALANCE OF PAYMENTS PROBLEMS MADE IT IMPOSSIBLE FOR THE POUND AND LIRA TO MAINTAIN PARITY WITH THE GERMAN MARK. SINCE THEN FRANCE AND DENMARK BOTH DROPPED OUT AND THEN RETURNED. AND FRANCE HAS NOW DROPPED OUT AGAIN AFTER

SPENDING NEARLY HALF ITS RESERVES TO PROP UP THE FRANC'S VALUE AS THE MARK ROSE FIRST AGAINST THE LIRA AND THEN THE POUND.

IN HIS REPORT, BELGIAN PREMIER TINDEMANS STRESSES THE IMPORTANCE OF MAKING PROGRESS TOWARDS BOTH ECONOMIC AND MONETARY UNITY TO KEEP UP THE MOMENTUM FOR A UNITED EUROPE. BUT THIS MEANS JOIN DECISIONS BY MEMBER COUNTRIES ON SUCH HIGHLY POLITICAL ISSUES AS LEVELS OF GOVERNMENT SPENDING AND TAXATION. WHICH IS PARTICULARLY DIFFICULT IN DEALING WITH ECONOMIES OF DIFFERENT STRENGTHS.

THE COMMON MARKET HEADS OF STATE ARE MEETING THE FIRST TWO DAYS OF APRIL IN LUXEMBOURG TO DISCUSS MISTER TINDEMANS REPORT. THE FRENCH ACTION PLACES ECONOMIC AND MONETARY QUESTIONS HIGH ON THE AGENDA. AND THE HEADS OF GOVERNMENT WILL HAVE TO DECIDE WHETHER THEY HAVE THE POLITICAL WILL AT THIS TIME TO MAKE THE DIFFICULT DECISION STEPS NEEDED FOR FURTHER INTEGRATION.

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JS/CAK